

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2003

Section II – Financial Statement Findings

Finding 1-1: Various Federal Agencies
CFDA # Various

Criteria: State law, Section 17-1-102(4), MCA, requires that before the accounts are closed at fiscal year-end, agencies shall input all transactions to present the receipt, use, and disposition of all money and property in accordance with generally accepted accounting principles. State law, Section 17-1-111, MCA, also provides the general fiscal duties of the state treasurer include receiving and accounting for all money received and disbursed.

Condition: The Department of Administration (department) is responsible for reconciling activity within all bank accounts for the state of Montana. Since the implementation of the Statewide Accounting, Budgeting, and Human Resources System beginning in fiscal year 2000, the department has been unable to reconcile its bank account activity to the accounting records.

Questioned Costs: No questioned costs identified.

Context: The state of Montana's basic financial statements reported approximately \$156 million in cash deposits at June 30, 2002. The accounting records reconciliation completed as of February 2003 for fiscal year-end 2001-02 noted the accounting system cash balance was higher than the bank by \$197,892. In fiscal year 2001-02, the department was still working with agencies to identify and correct unreconciled items from fiscal years 1999-00, 2000-01, and 2001-02. In fiscal year 2002-03, the department has substantially reconciled the state's cash balances.

Effect: The ability to promptly reconcile bank records to the accounting records is a key control which management needs to ensure the accounting records accurately reflect the cash balances.

Cause: Department personnel have been working to resolve the unreconciled cash balances. They developed a state policy to facilitate the cash reconciliation tool to assist with the process. Both the cash policy and the automated reconciliation tool went into effect on March 3, 2003. Personnel indicated implementation of the cash policy and availability of an automated reconciliation tool will aid in the reconciliation process.

Recommendation: We recommend the department reconcile cash balances on the state's accounting records to the bank records.

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Section III - Federal Award Findings and Questioned Costs

Finding 2-1: U.S. Department of the Interior
CFDA #15.605 Sport Fish Restoration – Fish and Wildlife Cluster
CFDA #15.611 Wildlife Restoration – Fish and Wildlife Cluster

Criteria: OMB Circular A-87, Attachment A, Item C, (1c and e) states for a cost to be allowable the cost has to be consistent with and in compliance with policies, regulations and procedures of the state.

Condition: During fiscal year 2001, the Department of Fish, Wildlife and Parks (department) contracted with various vendors to provide aircraft services for fish and wildlife monitoring purposes. In fiscal year 2001, we found instances where the department was not in compliance with required state procurement policies and procedures when securing aircraft services.

Questioned Costs: We question \$82,200 of federal funds spent on the purchase of aircraft services in fiscal year 2001.

Context: The department represented that there were nineteen vendors providing pilot services in fiscal year 2001, and we tested thirteen of those vendors. We found that five vendors did not have the required documentation for sole source purchasing. In addition, the services of two vendors were secured without a written contract.

Effect: The department was not in compliance with state administrative rules or department policy.

Cause: Personnel said that in some instances field staff contracted directly with pilots for services needed and overlooked requirements for providing sole source justification and securing written contracts. A new property section supervisor identified weaknesses in the procurement process noted above and reinforced existing procedures with field staff.

Recommendation: We recommend the department continue to ensure procedures are followed for contract procurement and monitoring in accordance with state and federal requirements.

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Finding 2-2: U.S Environmental Protection Agency
CFDA # 66.458 Capitalization Grants for Clean Water State Revolving Funds
CFDA # 66.468 Capitalization Grants for Drinking Water State Revolving Funds

Criteria: OMB Circular A-87, Attachment B, Section 11(d)(2), requires compensation for personal services to be equitably allocated to all related activities.

Condition: The Department of Environmental Quality (department) maintains leave pools with two different rates used to fund leave taken by certain employees who accumulate leave while working in state and federal programs. The two leave pools were moved to the department from two former state agencies when state programs were reorganized to form the department. Leave for the majority of department employees is not covered by either of the two leave pools. In our prior audit we recommended the department review its leave pool accounting procedures and ensure the procedures are uniformly and equitably applied.

Questioned Costs: We question leave pool charges amounting to \$46,652 and \$56,213 in fiscal year 2000-01 and 2001-02, respectively.

Context: The department reported \$27,315,901 and \$40,479,933 of federal expenditures in fiscal years 2000-01 and 2001-02, respectively. The department stopped using the leave pool in fiscal year 2002-03.

Effect: For the leave pool costs to be allowed for federal programs, the costs must be uniformly applied to all related activities of the governmental unit. Since the leave pool rates are not consistently applied to all employee leave, the costs are unallowable under federal regulations.

Cause: The department concurred with our prior recommendation. The department has been working with the federal government to develop a department-wide leave pool rate to put in place for fiscal year 2002-03. Progress has been hampered by turnover in the position assigned to this task.

Recommendation: We recommend the department charge its leave costs uniformly and equitably in accordance with federal regulations.

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Finding 2-3: U.S. Environmental Protective Agency (EPA)
CFDA #66.458 Capitalization Grants for State Revolving Funds
CFDA #66.468 Capitalization Grants for Drinking Water State Revolving Funds

Criteria: Federal regulations, 40 CFR 31 and 43 CFR 12, require grantees to file Federal Cash Transactions Reports (SF-272) within 15 days after the end of each calendar quarter and Federal Financial Status Reports (SF-269) no later than 90 calendar days after the end of the reporting period, unless extensions for the reporting due dates are approved by the federal grantor agency.

Condition: The Department of Environmental Quality (department) did not file the SF-272 reports for the state revolving grants for fiscal years 2000-01 and 2001-02. The department requested an exemption from the reporting requirement from the EPA and as of September 2002 the department had not received a response. The EPA annual SF-269 reports for fiscal years 2000-01 and 2001-02, were not submitted until after December 2003. In fiscal year 2002-03, the department submitted all its federal reports as required by federal regulations except for the SF-269 related to the state revolving grants. The department had an extension for the fiscal year 2002-03 annual report until November 30, 2003. However, the report was not filed until January 29, 2004.

Questioned Costs: No questioned costs were identified.

Context: The department reported \$27.3 million, \$40.5 million and \$43.8 million, of federal expenditures during fiscal years 2000-01, 2001-02 and 2002-03, respectively.

Effect: Noncompliance with federal reporting requirements.

Cause: Department personnel indicated they had requested an exemption from the EPA and they were waiting for a response before filing the federal reports. In addition, department personnel cited turnover and other priorities as reasons for these reporting delays.

Recommendation: We recommend the department file Federal Cash Transaction Reports and Financial Status Reports as required by federal regulations.

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Finding 2-4: U.S. Department of Labor
CFDA #17.207, 17.801, & 17.804 Employment Services Cluster
CFDA #17.225 Unemployment Insurance

Criteria: The March 2002 Compliance Supplement, Section 3-F-1, states when equipment with a current per unit fair market value in excess of \$5,000 is no longer needed for a federal program it may be retained or sold, with the federal agency having a right to a proportionate share of the fair market value.

Condition: The Department of Labor and Industry (department) records buildings and equipment used in its operations on the state's Asset Management system. The asset records must include information as to federal participation in the purchase of assets. We noted several conditions that indicate the department could improve controls over fixed asset transactions: property purchased with federal funds was recorded in a state special revenue fund on the state's Asset Management system, there was no documentation of control procedures that assigned responsibility for meeting federal requirements related to disposal of assets purchased with federal funds; computer equipment had been removed from service, yet accounting records were not adjusted for this removal; and a building had been recorded twice on the accounting records.

Questioned Costs: No questioned costs were identified.

Context: This is a continuing problem with the department for fiscal years 2001 and 2002. In our last audit report, we identified a property disposal where the department did not comply with federal regulations.

Effect: The department is not in compliance with federal regulations.

Cause: The department does not have procedures adequately documented.

Recommendation: We recommend the department assign staff responsibilities for fixed asset accounting to improve controls over fixed asset records.

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Finding 2-5: U.S. Department of Labor
CFDA #17.225 Unemployment Insurance

Criteria: The March 2001 Compliance Supplement Section, 3-L-H, states the ETA 227 reports should be done quarterly.

Condition: Federal regulations require the Department of Labor and Industry (department) to submit various reports on financial activity in programs receiving federal financial assistance. In connection with its unemployment insurance program, the department is required to report overpayment and collection activities quarterly. During our audit, we found the department has been unable to submit the quarterly ETA 227 report.

Questioned Costs: No questioned costs were identified.

Context: The department did not submit the required ETA 227 reports between September 2001 and June 2002.

Effect: The department is not in compliance with federal requirements.

Cause: A department manager said the federal government changed the format of the ETA 227 just as the department put its new benefits system in service. Therefore, the module designed to generate the ETA 227 did not interface with the new form.

Recommendation: We recommend the department prepare and submit its unemployment benefits quarterly ETA 227 report on a timely basis.

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Finding 2-6: U.S. Department of Labor
CFDA #17.207 Employment Services Cluster
CFDA #17.225 Unemployment Insurance

Criteria: OMB Circular A-87, Attachment C, states that federal programs are expected to bear their fair share of allowable costs, and that working capital reserves for internal service funds should be at a reasonable level, defined for the Montana Department of Labor (department) to be an amount of cash sufficient to cover a maximum of 60 days of operating expenses.

Section 17-8-101, MCA, requires fees and charges for services deposited in the internal service fund type to be based on commensurate costs.

Condition: The department operates an Internal Service Fund to accumulate costs directly billed to its programs by its information systems unit. Federal and state regulations allow the department to maintain 60 days of working capital in the account, approximately 17 percent of annual expenditures. When we analyzed the relationship between fiscal year 2001-02 expenditures and fund balance, we found the balance was 82 percent of the expenditures for the year or 301 days.

Questioned Costs: We question \$57,000 in costs.

Context: The Internal Service Fund expenditures for the information systems unit were \$99,000 in fiscal year 2001-02.

Effect: Federal programs contributed funds in excess of the actual cost of services provided.

Cause: A department administrator said the services billed have never been reconciled to actual expenditures incurred.

Recommendation: We recommend the department develop fees commensurate with costs for directly billed information services.

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Finding 2-7: U.S. Department of Labor
CFDA #17.207 Employment Service
CFDA #17.225 Unemployment Insurance

Criteria: Under the terms of the Cash Management Improvement Act (CMIA) agreement between Montana and the U.S. Treasury, the Department of Labor and Industry (department) is directed to request funds weekly on Wednesday based on the amount of actual cash outlays for administrative costs incurred in the previous week. For electronic funds transfers, such as payroll, the department may request funds the day before the disbursement.

Condition: The Employment Service and Unemployment Insurance grants provide financial assistance to administer the department's workforce service offices and unemployment insurance program. Procedures to draw federal cash to cover expenditures of these grants are specified in an agreement between the state and the U.S. Treasury negotiated in compliance with the CMIA. The department does not perform its draws in accordance with the CMIA agreement. The department draws down on a reimbursement basis.

Questioned Costs: No questioned costs were identified.

Context: We inspected department records of cash draws for these two programs during fiscal years 1999-00 and 2000-01. Of 21 Employment Service draws reviewed, 16 were not executed in accordance with the CMIA agreement. There were eight instances where at least a week passed in which no cash draws were made. Of 97 Unemployment Insurance draws reviewed, 67 did not comply with the CMIA agreement.

Effect: The department is not in compliance with the CMIA agreement.

Cause: A department official said the department prepares daily cash balances for the grants, and draws funds when the cash balances are negative. Since there has been turnover in the department's accounting function, accounting management had not reviewed the CMIA agreement to ensure current department practice complied with the agreement. According to department management, department personnel met with the Department of Administration in April 2002 to update the department's understanding of CMIA requirements. Since that time, the department has been complying with the CMIA agreement, the department official said.

Recommendation: We recommend the department follow the Cash Management Improvement Act agreement in drawing federal funds for administrative costs.

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Finding 2-8: U.S. Department of Health and Human Services
CFDA #93.775 State Medicaid Fraud Control Unit

Criteria: OMB A-133 Compliance Supplement, Part 3C, states when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. Federal regulations, 31 CFR 205.20, state cash advances shall be limited to the minimum amounts needed and shall be timed to be in accord with the actual immediate cash requirements of the program. The timing and amount of the advances shall be as close as is administratively feasible to the actual cash outlay.

Condition: To finance the Medicaid Fraud Control Unit, the Department of Justice (department) executes cash draws from the federal government on a reimbursement basis. We noted inconsistent cash draws in relation to expenditures for the unit during fiscal years 2001-02 and 2002-03. Some federal cash draws exceeded expenditures while other cash draws were less than actual expenditures. In addition, the draws were not executed as often as allowed.

Questioned Costs: No questioned costs were identified.

Context: The department reported \$418,009 and \$390,965 of expenditures in state Medicaid Fraud Control Unit expenditures in fiscal years 2001-02 and 2002-03, respectively.

Effect: The department is not in compliance with federal cash management regulations.

Cause: Department personnel indicated one fund is used to account for the activity of a variety of federal grants. Therefore, the department is unable to determine the actual cash account balance for the Medicaid Fraud Control Unit at any point in time.

Recommendation: We recommend the department establish procedures to ensure cash draws from the federal government for the Medicaid Fraud Control Unit are executed in accordance with federal regulations.

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Finding 2-9: Department of Defense
CFDA #12.400 Military Construction National Guard
CFDA #12.401 National Guard Military Operations and Maintenance Projects

Criteria: OMB Circular A-133 requires entities receiving federal funds to follow provisions of the Cash Management Improvement Act (CMIA) agreement between the state of Montana and the U.S. Treasury for federal assistance programs covered by the agreement. State policy requires the Department of Military Affairs (department) to prepare spreadsheets to track clearance patterns that aid in documenting compliance with the CMIA agreement. Information from the spreadsheets is used by the Department of Administration to determine any federal or state interest liabilities.

Condition: We addressed cash management problems in each of the last three audits of the department. During fiscal year 2001, the Department of Administration requested and received interest payments from the federal government, because the spreadsheet calculations showed the federal government was not reimbursing expenditures in a timely manner. However, subsequent work determined that the calculations were in error. An outside CPA firm identified errors and inconsistencies with the fiscal year 2001 spreadsheet used to track clearance patterns for the Operations and Maintenance program. Their report indicated that the data in the worksheet might be unreliable. In response to the CPA firm's work, the department submitted a revised worksheet.

Questioned Costs: As a result of revisions to the spreadsheet the state may owe approximately \$55,000 back to the federal government.

Context: In fiscal year 2000-01, total federal assistance was \$1.6 million for CFDA #12.400 and \$8.6 million for CFDA #12.401.

Effect: The department is not in compliance with the CMIA agreement.

Cause: During fiscal year 2000-01, employees were inputting bills each day to the accounting system for payment, and this information was used to construct the warrant clearance worksheet. Vouchers requesting reimbursement were prepared weekly, but bills were not always included in that week's reimbursement request. As a result, clearance pattern calculations showed delays in payment, when the voucher for reimbursement had not been submitted.

Recommendation: We recommend the department implement procedures to ensure the CMIA spreadsheets contain accurate information in order to document compliance with the CMIA agreement.

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Finding 2-10: Department of Education
CFDA #84.011 Migrant Education – Basic State Grant Program

Criteria: Federal Regulations, 34 CFR 76.700, states a State and a subgrantee shall comply with the State plan and applicable statutes, regulations, and approved applications, and shall use federal funds in accordance with those statutes, regulations, plan and applications. Montana state law, section 2-2-105, MCA, specifically prohibits state employees from acquiring an interest in any business that may receive a direct substantial benefit from official acts performed in their capacity as state employees. Section 2-2-102, MCA, defines “private interest” as a directorship or officership in a business.

Condition: An employee in the Office of Public Instruction (OPI) having oversight responsibility for the Migrant Education Federal Award is also a member of the Board of Directors for a subrecipient receiving a substantial amount of federal funds from OPI.

Questioned Costs: We question \$478,271 of disbursements for CFDA #84.011.

Context: OPI provided \$478,271 in federal funds to Rural Employment Opportunities, Inc. for the two fiscal years ended June 30, 2002. This represents 20 percent of the total expenditures incurred in fiscal year 2001 and 36 percent of the total expenditures incurred in fiscal year 2002 for the federal award.

Effect: OPI is not in compliance with state and federal laws and regulations.

Cause: OPI management reviewed the potential conflict of interest prior to the employee’s involvement with the organization and determined it would not constitute a violation of the code of ethics. However, OPI staff were unable to provide documentation of that decision.

Recommendation: We recommend OPI take immediate appropriate action to eliminate the conflict of interest.

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Finding 2-11: U.S. Department of Labor
CFDA #17.225 Unemployment Insurance

Criteria: The Federal-State Unemployment Insurance (UI) program regulations are found in 20 CFR Parts 601 through 616. Program regulations require the Montana Department of Labor (DOLI) to file various reports, one of which is the ETA 581, *Contributions Operations (OMB No. 1205-0178)* – Quarterly report.

Condition: In the cooperative agreement between the Department of Revenue (department) and DOLI, the department is required to prepare the ETA 581 and submit it to the DOLI by the 15th of the month following the end of each quarter. The ETA 581 is a federally required report concerning UI tax collections. DOLI must then submit the report to U.S. Department of Labor. During the audit for fiscal years 1999 and 2000, we found that the department was unable to prepare the report in the time period required in the agreement because the department did not have the information required for the report. In the audit for fiscal years 2001 and 2002, we found that although the department is now able to prepare the report, none of eight quarterly reports prepared during the audit period were submitted within the 15-day time established in the agreement. The first two quarterly reports submitted in fiscal year 2003 were also late.

Questioned Costs: No questioned costs were identified.

Context: The eight quarterly reports for fiscal year 2001 and 2002 ranged from sixteen months to one month late. For the quarters ended March 31 and June 30, 2003, the ETA reports were submitted three and ten days after the 15-day requirement, respectively.

Effect: The department is not in compliance with federal regulations and the cooperative agreement with DOLI.

Cause: Department personnel said that because of the problems with the information necessary to prepare the reports, department personnel had to spend considerable time validating the data before the report could be submitted.

Recommendation: We recommend the department comply with UI tax reporting requirements contained in its contract with DOLI.

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Finding 2-12: U.S. Department of Labor
CFDA #17.225 Unemployment Insurance

Criteria: The computation of the employer's annual Unemployment Insurance (UI) tax rate is based on State Unemployment Insurance laws (26 USC Section 3303). State law, section 39-51-1219, MCA requires that experience factors used to calculate the UI rate be applied in certain situations to successor employers.

Condition: The Department of Revenue's (department) computer system used to calculate UI rates for calendar years 2001 and 2002 did not properly transfer the experience rating from previous employers to successor employers. In October 2002, department personnel began reconciling data errors and taxpayer errors in the computer system. The reconciliation process was fully implemented in February 2003. As of August 2003, there were approximately 3500 accounts out of balance with all reviews scheduled to be completed by December 15, 2003. In 2003, the department generated 3,778 penalty rate notices and, after initial review, the number sent to employers was reduced to 3,100.

In addition, we found the department did not have an adequate control system to determine whether manual changes made to UI rates were appropriate during calendar year 2001. According to department personnel, some of the rate changes for calendar year 2002 were reviewed by an employee; however, that employee's rate changes were not reviewed. No documentation of manual rate adjustments was available to ensure rate changes were correct and appropriate. In April 2002, the department began using, and continues to use, worksheets to document questions and follow-up related to employer rates.

Questioned Costs: No questioned costs were identified.

Context: The department calculated an UI tax rate for approximately 35,000 employers for calendar years 2001 and 2002. Of these 35,000, 925 employers were identified in the population of employers whose rates may not have been calculated correctly.

Effect: The department may have provided an incorrect UI tax rate to approximately 925 employers for calendar years 2001 and 2002. Without proper documentation and supervisory reviews, controls are not adequate to ensure manual changes to UI rates are appropriate.

Cause: Department personnel said the computer system used to calculate the rates did not properly transfer experience factors for successor employers.

Recommendation: We recommend the department:

- A. Accurately calculate UI rates as required by state law.
- B. Establish controls over UI rate inquiries and adjustments.

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Finding 2-13: U.S. Department of Education
CFDA #Various – Research and Development Cluster

Criteria: Federal regulations in OMB Circular A-21 require that recipients of federal funds keep documentation to support the propriety of all costs charged to federal programs. They also require that costs charged to federal programs be reasonable and allocable to the program.

Condition: For the audit covering the two fiscal years ended June 30, 2001, we recommended the university adequately support leave pool rates used for its MT-Tech of the University of Montana leave pool as required by federal regulations. This is a prior audit finding and the university has not fully implemented the prior recommendation.

Questioned Costs: We question charges to grants and contracts (revenue to the leave pool) of \$163,503 in fiscal year 2000-01.

Context: We reviewed the adequacy of leave pool rate support for fiscal years 2000-01. MT Tech of the UofM reported \$4.9 million in federal expenditures in fiscal year 2000-01.

Effect: MT Tech of the UofM is not in compliance with federal cost allowability requirements.

Cause: Campus personnel calculated leave pool rates for a sample of employees using different assumptions regarding sick leave usage. However, the rates being charged to the universities grants and contracts were between the rates calculated, so personnel believed the rates were adequately supported.

Recommendation: We recommend MT Tech of the UofM charge adequately supported leave amounts for its leave pool as required by federal regulations.

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Finding 2-14: U.S. Department of Agriculture
CFDA #10.557 Special Supplemental Nutrition Program for
Women, Infants and Children (WIC)

Criteria: The Department of Public Health and Human Services (department) contracts with 43 local agencies to administer the WIC program. Federal regulations, 7 CFR 246.19, specify that the state agency shall conduct monitoring reviews of each local agency at least once every two years, and shall promptly notify any local agencies of findings of non-compliance with program requirements identified in monitoring review.

Condition: From July 1, 2001 to March of 2003, the department canceled 9 of its 35 scheduled monitoring visits to local agencies. These monitoring visits were rescheduled for fiscal years 2002-03 and 2003-04. By canceling these visits, the state failed to complete a monitoring of each local agency once every two years. For the 26 monitoring visits completed by department staff, we noted 11 reports were completed, three reports were in process, nine reports were not completed and sent to the local agencies for corrective action, one report with findings was not completed accurately and, therefore, the local agency did not complete any follow-up, and two reports with findings were completed, but the department did not approve any corrective action by the local agencies.

Questioned Costs: No questioned costs were identified.

Context: A total of 35 local agencies should have been monitored from July 1, 2001 to March 31, 2003.

Effect: The department did not comply with federal subrecipient monitoring requirements.

Cause: The department attributed this non-compliance to staff turnover in the WIC program. Several people tried to cover two jobs at one time. In addition, a department manager said the department decided to make implementation of new federal regulations relating to the retail operations a higher priority than monitoring some of the agencies.

Recommendation: We recommend the department complete monitoring visits and the associated reports in accordance with federal regulations.

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Finding 2-15: U.S. Department of Agriculture
CFDA #10.557 Supplemental Nutrition Program for Women,
Infants and Children (WIC)

Criteria: Federal regulations, 7 CFR 264.12, require the Department of Public Health and Human Services (department) to account for the disposition of all WIC vouchers as either issued or voided and, when issued, as either redeemed or unredeemed.

Condition: Participants in the WIC program are issued vouchers that are redeemable for specific food items at participating stores. The WIC computer system generates an edit report that includes information regarding vouchers that have been redeemed prior to an attempt to void the voucher. For vouchers voided or reissued, the department requires each local agency to submit a void/reissue receipt. This document informs the department of why vouchers were voided and reissued. To complete the procedure, department personnel match the reasons with the identified voids on a daily report and follow up on any instances that do not appear reasonable. With this procedure, the department can detect cases giving the client benefits in excess of those allowable. In the 12 months from April 2002 to March 2003, department personnel did not investigate any differences between the receipts submitted and the activity reported by local agencies.

Questioned Costs: No questioned costs were identified.

Context: The department expended \$12.4 million and \$13.8 million in fiscal years 2002-03 and 2001-02, respectively.

Effect: Vouchers could have been reissued to clients without the initial issuances being voided and the dual issuance would not have been detected.

Cause: A department program manager stated that the program was understaffed in the two-year audit period for reasons including staff on medical leave and a hiring freeze. For some of the instances, department personnel thought they may have looked at the documentation, decided that nothing was wrong, and then discarded the evidence of their review.

Recommendation: We recommend the department complete and document daily review of WIC voucher activity.

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Finding 2-16: U.S. Department of Agriculture
CFDA # 10.557 Special Supplemental Nutrition Program
for Women, Infants and Children (WIC)

Criteria: Federal regulations, 7 CFR 246.7, require the Department of Public Health and Human Services (department) prevent participants from receiving WIC benefits more than once per month.

Condition: To implement this requirement, existing department procedures specify that the department will prepare a report from its records monthly to identify clients certified to participate more than once in WIC in that month. The department did not consistently review this report.

Questioned Costs: No questioned costs were identified.

Context: In one 12-month period, the department ran and reviewed this report twice in the month following the WIC activity, completed the review for an additional four months after the time the review could have identified and prevented dual participation, and did not review the report for six months.

Effect: The department did not comply with the federal requirement to identify dual participation. By not reviewing activity reports, the department raises the risk that dual participation will not be detected quickly, thereby allowing additional unallowable costs.

Cause: A department manager stated that the position responsible for reviewing the report was vacant for several months.

Recommendation: We recommend the department run and review its WIC dual certification report monthly to ensure prevention of dual participation by clients.

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Finding 2-17: U.S. Department of Education
CFDA #84.126 Rehabilitation Services – Vocational Rehabilitation
Grants to States

Criteria: Federal regulations require the Department of Public Health and Human Services (department) submit a RSA-2 Program Cost Report for the Vocational Rehabilitation Services Program for each federal fiscal year.

Condition: The RSA-2 Program Cost Report shows all expenditures made during the period, including expenditures charged to federal funds carried over from the previous fiscal year. For purposes of preparing this report, expenditures include unliquidated obligations. We noted that the federal fiscal year 2002 RSA-2 Program Cost Report was submitted with five line items reporting numbers from the federal fiscal year 2001 report. The errors totaled \$164,075 and netted to a \$56,659 overstatement of costs.

Questioned Costs: No questioned costs were identified.

Context: The department expended \$9,892,944 and \$9,698,413 for the Vocational Rehabilitation Services Program in fiscal year 2001-02 and 2002-03, respectively.

Effect: The department is not in compliance with federal reporting requirements.

Cause: Department personnel said the previous year's numbers were reported in error.

Recommendation: We recommend the department ensure the RSA-2 Program Cost Report includes only costs related to the period covered by the report.

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Finding 2-18: U.S. Department of Education
CFDA #84.126 Rehabilitation Services – Vocational Rehabilitation
Grants to States

Criteria: Federal regulations, 34 CFR 361.64(b), state the vocational rehabilitation grant for each federal fiscal year must be obligated in the year of the award and expenditures paid by the end of the subsequent year. Federal regulations, 34 CFR 76.707, indicate if an obligation is for personal services by an employee of the state or subgrantee, the obligation is made when the services are performed.

Condition: The Department of Public Health and Human Services (department) charged payroll expenditures to the federal fiscal year 2002 (October 1, 2001 through September 30, 2002) Vocational Rehabilitation Services Program grant as late as the pay period ending February 21, 2003.

Questioned Costs: We question a total of \$6,568 of payroll expenditures that were charged to the federal fiscal year 2002 grant after the grant period had ended.

Context: The department expended \$9,892,944 and \$9,698,413 for the Rehabilitation Services – Vocational Rehabilitation Grants to States in fiscal year 2001-02 and 2002-03, respectively.

Effect: The department is not in compliance with federal regulations regarding period of availability.

Cause: Department payroll personnel indicated they use payroll codes provided by program accounting personnel until new payroll codes are provided.

Recommendation: We recommend the department charge only payroll costs incurred within the grant period.

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Finding 2-19: U.S. Department of Education
CFDA #84.126 Rehabilitation Services – Vocational Rehabilitation
Grants to States

Criteria: Federal regulations, 34 CFR 361.54, require states that choose to use financial needs tests for one or more types of vocational rehabilitation services to apply those tests to all individuals uniformly.

Condition: Individuals qualify for vocational rehabilitation services if they have a physical or mental impairment that impedes their employment, they have employment capability, and vocational rehabilitation services are required to secure, retain, or regain employment. Clients in Montana must also meet certain financial resource criteria. We tested client files at the Department of Public Health and Human Services (department) for documentation of disability and financial eligibility criteria. The department provided \$15,330 in vocational rehabilitation services to three clients while documentation indicated the individuals had not met financial eligibility requirements.

Questioned Costs: Applying the 80 percent federal participation rate, we question \$12,264 in federal costs in fiscal years 2001-02 and 2002-03.

Context: Of the 74 client files reviewed for eligibility, three clients received services when information in the clients' files indicated they were not financially eligible.

Effect: The department is not in compliance with federal vocational rehabilitation eligibility requirements.

Cause: Department personnel were unsure why these individuals were approved for services.

Recommendation: We recommend the department strengthen procedures to ensure client files document resource eligibility requirements before vocational rehabilitation services are provided.

State of Montana
Schedule of Findings and Questioned Costs
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Section III - Federal Award Findings and Questioned Costs

Finding 2-20: U.S. Department of Health and Human Services
CFDA #93.959 Block Grant for Prevention and Treatment of
Substance Abuse (SAPT)

Criteria: Federal regulations, 45 CFR 96.134, require the state of Montana to spend state resources on substance abuse prevention and treatment programs as a condition of receiving an allocation of the federal SAPT block grant. To meet the required state expenditure standard, commonly called “maintenance of effort,” the Department of Public Health and Human Resources (department) must show that state funds spent in a fiscal year equal or exceed the average of the amounts spent by the state in the preceding two fiscal years.

Condition: We reviewed the level of state expenditure effort reported by the department for state fiscal year 2001-02 in its application for federal fiscal year 2002-03 funding. The state expenditures reported were \$268,563 less than the average expenditures for the two previous fiscal years.

Questioned Costs: We question \$268,563 in SAPT costs for the fiscal year 2002-03.

Context: A federal technical review report discloses shortfalls in state maintenance of effort expenditures in state fiscal years 1998-99 and 1999-00.

Effect: The state is not in compliance with federal maintenance of effort requirements.

Cause: Department management said the maintenance of effort shortfall in state fiscal year 2002 resulted from a reduction in alcohol tax money available for meeting the costs of the Montana Chemical Dependency Center.

Recommendation: We recommend the department maintain state expenditures for substance abuse at the level required by the Substance Abuse Prevention and Treatment grant.

State of Montana
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Section III - Federal Award Findings and Questioned Costs

Finding 2-21: U.S. Department of Health and Human Services
CFDA #93.959 Block Grants for Prevention and Treatment of
Substance Abuse (SAPT)

Criteria: Federal regulations, 45 CFR 96.135(b) and 45 CFR 96.124(b), set certain limits to guide the use of SAPT block grant funds. To comply with these limits, the Department of Public Health and Human Services (department) must spend at least 20 percent of each grant on prevention activities and no more than five percent of each grant on program administration.

Condition: We reviewed the state's accounting records used to track expenditures for various categories of SAPT grant activity. We noted the department expenditures for prevention were \$166,473 less than the 20 percent required for the federal fiscal year 2000-01 grant.

Questioned Costs: Since 20 percent of the grant must be expended on prevention, we question \$724,004, the amount by which total grant expenditures exceeded five times the valid prevention program charges.

Context: In the previous audit, the department did not have adequate cost centers on the state's accounting records to track earmarking requirements.

Effect: The department is not in compliance with federal earmarking requirements.

Cause: The department replaced state alcohol money used to match increased Medicaid services with SAPT block grant funds. Although the department may be able to support some of these costs as client services to SAPT eligible population, support was not generated.

Recommendation: We recommend the department increase prevention activities to meet Substance Abuse Prevention and Treatment grant requirements.

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Section III - Federal Award Findings and Questioned Costs

Finding 2-22: U.S. Department of Health and Human Services
CFDA #93.568 Low Income Home Energy Assistance Program (LIHEAP)

Criteria: The federal government requires that LIHEAP grantees file an annual Financial Status Report on outstanding grants. On this form, the Department of Public Health and Human Services (department) must report the total allotment from the "Notice of LIHEAP Grant Award," the amount expended, and the unobligated balance of federal funds granted. The department has two years to expend each grant.

Condition: We compared four LIHEAP Financial Status Reports to the state's accounting records. On two of the reports, the department reported unobligated balances even though all funds for the grant had been obligated and spent. The department appeared to have not expended the full allotment of grants within the two years for which the allotment was available for expenditure.

Questioned Costs: No questioned costs were identified.

Context: The department completed four reports during fiscal years 2001-02 and 2002-03. Two of those reports showed unobligated amounts when the department had already obligated those amounts through contracts for the next fiscal year.

Effect: The department is not in compliance with federal reporting requirements.

Cause: A department fiscal manager said the errors occurred because the department reported the carry forward balances from the first year as unobligated balances on the final Financial Status Report for the grant.

Recommendation: We recommend the department file Financial Status Reports for Low Income Housing Energy Assistance Program grants using correct expenditure information.

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Section III - Federal Award Findings and Questioned Costs

Finding 2-23: U.S. Department of Health and Human Service
CFDA #93.658 Foster Care – Title IV-E

Criteria: Amendment 6 to the state's Cash Management Improvement Act (CMIA) agreement requires the Department of Public Health and Human Services (department) to transfer weekly from the Foster Care program to the Adoption Assistance program certain amounts drawn for administrative purposes.

Condition: The department draws federal funds through the Title IV-E Foster Care program for administrative expenses for both the Foster Care and the Adoption Assistance programs. The department did not transfer funds to Adoption Assistance as required by the CMIA agreement.

Questioned Costs: No questioned costs were identified.

Context: The department reported Foster Care expenditures of \$12.3 million and \$9.9 million in fiscal years 2002-03 and 2001-02, respectively.

Effect: The department is not in compliance with the CMIA agreement.

Cause: Department personnel assigned to draw federal cash were not aware of the CMIA requirement to transfer Adoption Assistance federal funds.

Recommendation: We recommend the department provide supervisory oversight to ensure personnel make weekly transfers from the Title IV-E Foster Care program to the Adoption Assistance program for administrative expenses in compliance with the federal cash management agreement.

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Section III - Federal Award Findings and Questioned Costs

Finding 2-24: U.S. Department of Health and Human Services
CFDA #93.658 Foster Care – Title IV-E

Criteria: Under the terms of the Cash Management Improvement Act (CMIA) agreement (section 7.9), the Department of Public Health and Human Services (department) must draw funds for each program based on a warrant clearance pattern established by the Montana Department of Administration. Department fiscal policy states that all CMIA schedules should be reviewed and reconciled on a monthly basis.

Condition: The department is required to draw federal Foster Care money in accordance with an agreement, executed in compliance with the federal government under the Cash Management Improvement Act (CMIA). To calculate the amount and track the timing of draws, the department prepares spreadsheets and reconciles the cash draws to the accounting system. We found instances where the department did not draw Foster Care cash in compliance with terms of the CMIA agreement. The following describes some cash draw errors made by department personnel:

- ▶ There were no recorded expenditures, but \$5,279 was drawn.
- ▶ Expenditures of \$2,640 were recorded, but the cash draw was \$57,542.
- ▶ Expenditures of \$159,764 were recorded, but that amount was credited to the federal government instead of drawn.
- ▶ Expenditures of \$120,681 were recorded, but the cash draw was \$6,120.
- ▶ Expenditures of \$8,762 for indirect costs were recorded, but the department did not draw cash.
- ▶ Expenditures of \$742,926 were recorded at the end of the year, but were not drawn immediately. We could not determine when the draw occurred.

In other cases, the department did not draw the appropriate amount on the date dictated by the CMIA agreement. Had the department performed timely reconciliations of Foster Care cash draws to the CMIA schedule of expenditures, the pattern of errors could have been detected.

Questioned Costs: No questioned costs were identified.

Context: Out of 11 reconciliations tested for various programs at the department, the Foster Care program was the only program not fully reconciled.

Effect: The department is not in compliance with CMIA agreement requirements.

Cause: Department personnel said reconciliations for Foster Care draws did not occur in fiscal year 2002-03.

Recommendation: We recommend the department perform reconciliations of Foster Care cash draws according to department policy to ensure compliance with federal requirements.

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Section III - Federal Award Findings and Questioned Costs

Finding 2-25: U.S. Department of Health and Human Services
CFDA #93.658 Foster Care – Title IV-E

Criteria: OMB Circular A-133 requires reports for Federal awards include all activity of the reporting period, the activity is supported by applicable accounting or performance records, and the report is fairly presented in accordance with program requirements.

Condition: The Department of Public Health and Human Services (department) allocates certain administrative costs for Foster Care and Adoption Assistance based on the level of program activity. In the first step of a two-part process, the department's cost allocation system identifies the costs of the two programs as a single Title IV-E program unit. The department personnel complete the allocation with a manual procedure to separate costs of the two programs. In fiscal year 2002-03, department staff did not complete the allocation of costs between Foster Care and Adoption Assistance.

Questioned Costs: No questioned costs were identified.

Context: We reviewed the quarterly financial report for the Title IV-E programs for the period ended September 30, 2002, and found a difference of \$235,906 between the amounts reported and the state's accounting records. Although the department identified most of this difference as related to the timing of recording allocated administrative costs, department staff did not reconcile the report to the accounting records.

Effect: Foster Care expenditures were overstated and Adoption Assistance expenditures were understated by \$1,322,428 for fiscal year 2002-03 on the state's accounting records.

Cause: Department personnel indicated the allocation process is complicated and they are in the process of revising it to make it more user friendly.

Recommendation: We recommend the department improve the accuracy of its administrative cost allocation to the Foster Care and Adoption Assistance programs.

State of Montana
Schedule of Findings and Questioned Costs
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Section III - Federal Award Findings and Questioned Costs

Finding 2-26: U.S. Department of Health and Human Services
CFDA #93.563 Child Support Enforcement

Criteria: Federal regulations, 45 CFR 307.10 states “At a minimum, each State’s computerized support enforcement system established under the Title IV-D State plan at section 302.85(a)(1) of this chapter must: (b) control, account for, and monitor all the factors in the support collection and paternity determination processes under the State plan. At a minimum this must include: (5) collecting and distributing both intrastate and interstate support payments.”

Condition: The Department of Public Health and Human Services (department) administers the federally assisted Child Support Enforcement program that distributes over \$50 million in child support payments annually. The department uses three computer systems, including the Statewide Accounting, Budgeting and Human Resources System (SABHRS), to account for the collection, payment and transfer of funds related to the Child Support Enforcement program. The department performs daily cash reconciliations between the systems. Based on current reconciliations, the department needs in excess of \$400,000 in additional cash to pay the liabilities recorded on SABHRS for Child Support program payments at June 30, 2003.

Questioned Costs: No questioned costs were identified.

Context: Concerns related to the adequacy of the child support reconciliation process have been identified during the last five audits of the department.

Effect: Each month, the difference between the child support collections and the public assistance is calculated, and any amount of collections exceeding the public assistance amount is to be paid to the custodial parent. The department has not been paying parents receiving public assistance the excess collections due to the unreconciled difference.

Cause: A department official said several transactions causing differences have been identified, but the department has not had the resources to research all differences.

Recommendation: We recommend the department immediately resolve unreconciled differences between computer systems used to track and record activity for the Child Support Enforcement program.

State of Montana
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Section III - Federal Award Findings and Questioned Costs

Finding 2-27: U.S. Department of Health and Human Services
CFDA #93.575 & #93.596 Child Care Cluster

Criteria: Federal guidelines require that the Department of Public Health and Human Services (department) perform on-site monitoring of Child Care Resource and Referral agencies.

Condition: The department contracts with 12 local agencies around the state to administer approximately \$21.4 million for federally assisted childcare. These Resource and Referral agencies track applications and bills for child care services for each individual child participating in the program. The agencies use federal regulations to determine what costs and amounts are allowable. Personnel at the agencies are responsible for reviewing bills from child care providers for compliance with federal regulations and entering the charges on the department's childcare computer system. We found that the department did not conduct on-site monitoring of these agencies for three years.

Questioned Costs: No questioned costs were identified.

Context: The department did not conduct on-site monitoring for all 12 local agencies for three years prior to March 2003. The department started monitoring the agencies again in March 2003, and completed field visits to all agencies by August 2003.

Effect: The department is not in compliance with federal subrecipient monitoring requirements.

Cause: A department official said the department designed and implemented a new computer program for the childcare program. Since personnel were assigned to the computer system project, the department did not conduct the monitoring visits.

Recommendation: We recommend the department conduct periodic monitoring of childcare program local agencies.

State of Montana
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Section III - Federal Award Findings and Questioned Costs

Finding 2-28: U.S. Department of Education
CFDA #84.007, #84.033, #84.038, #84.063, #84.268, #93.364, & #93.925 Student
Financial Aid Cluster

Criteria: Federal regulations, 34 CFR 668.22, require the calculation to determine the amount of financial aid that a student has earned is based on the date that the student began the withdrawal process prescribed by the school.

Condition: Students who receive financial aid must return to the U.S. Department of Education any aid that is not earned by the student. The university is responsible for calculating the amount of financial aid that the student must return. At Montana State University MSU-Bozeman (university), a student begins the withdrawal process by talking with the Dean of Students Office or the Graduate Studies Office. These offices obtain the information from the student and fill out an official withdrawal form for the student. The Dean of Students Office notifies the financial aid office, where the amount of unearned financial aid is calculated based on the date of the notification. In three of the ten instances we reviewed, the notification date was not the date the student began the withdrawal process.

Questioned Costs: In these three instances, if the correct date had been used, an additional \$1,800 should have been returned to the U.S. Department of Education.

Context: Based on differences between the notification date and the withdrawal date, we identified a potential of 250 student accounts where the wrong date was potentially used to calculate the amount of unearned financial aid during the fall 2002 and spring 2003 semesters. We did not recalculate the refund amount for each of the 250 students.

Effect: The university is not in compliance with federal refunding requirements.

Cause: University staff indicated the reason for using the incorrect date is due to university policy of using the date of the correspondence as the date that the student withdrew. The date of the correspondence does not always reflect the date that the student first began the withdrawal process but may instead reflect the end of the withdrawal process.

Recommendation: We recommend the university revise its refunding policy to ensure the correct date is used to calculate the amount of aid that must be returned to the U.S. Department of Education.

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Section III - Federal Award Findings and Questioned Costs

Finding 2-29: Various Federal Agencies
CFDA # Various – Research and Development Cluster

Criteria: According to OMB Circular A-110, unless the federal awarding agency authorized an extension, a recipient shall liquidate all obligations incurred under an award no later than 90 calendar days after the funding period or the date of completion.

Condition: Montana State University-Bozeman (university) employs fiscal managers in the Grants and Contracts office who monitor university grants. Individual principal investigators at the departments apply for and receive the grants. The departments are responsible for the research required by the grant while Grants and Contracts is responsible for ensuring all federal requirements are met. We noted 71 of the 164 grants had ended at least 90 days prior to fiscal year end. The dates when the grants had ended range as far back as February 1999. As of August 29, 2003, the grants had not gone through the closing process.

Questioned Costs: No questioned costs were identified.

Context: The university received approximately \$58.5 million in federal research funds in each of the fiscal years 2001-02 and 2002-03.

Effect: The university is not in compliance with federal regulations.

Cause: University personnel stated they were aware the grants had been completed, but in some cases had not had time to go through the formal process of closing the grant.

Recommendation: We recommend the university comply with its procedures to ensure grants are closed out within 90 days or according to grantor guidelines.

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Section III - Federal Award Findings and Questioned Costs

Finding 2-30: Various Federal Agencies
CFDA # Various – Research and Development Cluster

Criteria: The OMB Circular A-102 Common Rule and OMB Circular A-110 require that non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

Condition: We reviewed 30 grants and contracts. The instances below document areas where Montana State University-Bozeman (university) has not complied with its control procedures for its grants and contracts.

- ▶ Federal regulations require only time spent on grants be charged to the grants. The university tracks time spent through time and effort reports. University policy requires the time and effort reports sent to all departments by Grants and Contracts be completed and returned to Grants and Contracts within 30 days. In June of 2003, we noted time and effort reports for the TechLink department had not been completed since January of 2003.
- ▶ Grants and Contracts policy states accounts will be billed monthly in an effort to collect funds in the timeliest manner possible. We noted several grants for MSTA/NASA had not been invoiced timely. The last invoice was dated April 24, 2003. Funds spent totaled \$238,048, but the university had only received revenue of \$101,330. We noted one grant had not been invoiced since October 2002.
- ▶ We noted three grants where the Financial Status Report (SF269) and/or property reports had not been submitted timely. According to federal regulations, annual reports are due 90 calendar days after the grant year.

Questioned Costs: No questioned costs were identified.

Context: The university had over 1,000 federal grants with expenditure activity during fiscal year 2003.

Effect: The university is not in compliance with internal control requirements of the federal government.

Cause: University personnel stated they have not had time to complete the reports, and they got behind on the billing of some grants due to a large workload.

Recommendation: We recommend the university comply with its controls over the grant monitoring process to ensure all state and federal requirements are met.

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Section III - Federal Award Findings and Questioned Costs

Finding 2-31: U.S. Department of Education
CFDA #84.007, #84.032, #84.033, #84.038, #84.063, #84.268, #93.364, & #93.925 Student
Financial Aid Cluster

Criteria: The instructions for the Fiscal Operations and Application to Participate (FISAP) report state that the America Reads and Math Tutors programs should be reported at the total amount of federal funds expended. Additionally, the FISAP requires both the federal and non-federal share of community services compensation work-study to be reported on separate lines.

Condition: Universities participating in certain financial aid programs are required to complete a FISAP report. The report is due by October 1 of each year. It reports the activity of the completed award year and requests funds for the upcoming award year. The America Reads and the Math Tutors programs are both 100 percent funded by the federal government. When preparing the FISAP, Montana State University-Billings (university) made an error, assuming these programs are a 75 percent federal, 25 percent state match. This error understated the total federal expenditures. In addition, the university included the state share on the federal line item and on the state line item for the community services compensation work-study program, as a result, the state share doubled.

Questioned Costs: No questioned costs were identified.

Context: The understatement and overstatement of expenditures on the FISAP did not materially misstate the FISAP for the 2001-02 grant award.

Effect: Total federal expenditures for the America Reads and Math Tutors programs were understated by \$1,081. The community services compensation error resulted in doubling the state share and a total overstatement of \$17,010.

Cause: University personnel stated the report contained the wrong number from the supporting documentation.

Recommendation: We recommend the university improve procedures to ensure the financial aid reports are accurate and prepared in accordance with federal requirements.

State of Montana
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Section III - Federal Award Findings and Questioned Costs

Finding 2-32: U.S. Department of Housing and Urban Development
CFDA #14.856 & #14.195 Section 8 Project-based Cluster

Criteria: Federal regulations, 24 CFR 882 includes federal requirements on property owner payments for vacant and tenant damage claims.

Condition: Under the Mod-Rehab program a property owner can receive reimbursement for certain costs. These costs include reimbursements for tenant caused damage to property or for unit vacancy. We tested a sample of claims filed for tenant damage or unit vacancy at the Department of Commerce (department). Four of the sample items contained errors in the calculation of the reimbursement amount to property owners; the other two contained incorrect determinations of liability based on tenant vacancy notices. One of the six files contained an additional error where a property owner was overpaid by \$1,117. Although a note had been placed in the file detailing this overpayment, the department failed to collect this amount from the property owner.

Questioned Costs: One of the six files contained an additional error where a property owner was overpaid by \$1,117.

Context: Of the 19 sample items selected in fiscal years 2001-02 and 2002-03, six files contained errors.

Effect: The department is not in compliance with federal reimbursement requirements.

Cause: Department personnel stated that these items were overlooked or miscalculated.

Recommendation: We recommend the department:

- A. Establish controls in the Mod-Rehab program to ensure amounts reimbursed to property owners are properly calculated and paid, and
- B. Seek reimbursement for the \$1,117 overpayment.

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Section III - Federal Award Findings and Questioned Costs

Finding 2-33: U.S. Department of Transportation
CFDA #20.205 Highway Planning and Construction

Criteria: Federal regulations require that the Montana Department of Transportation (department) have an adequate control system to monitor compliance with Davis-Bacon Act requirements. The Act's requirements are applicable to federal-aid highway contracts in excess of \$2,000. Wages paid to highway construction workers and mechanics must not be less than the published prevailing wage established by the U.S. Department of Labor. All covered employees of subcontractors on federal-aid highway projects are also to be paid in accordance with the Davis-Bacon prevailing wage rates.

Condition: The department's Civil Rights Bureau (CRB) is responsible for implementing and monitoring the department's civil rights requirements including compliance with Davis-Bacon Act requirements. During the audit, we reviewed seventeen completed construction projects and tested the controls over the receipt of required documentation and certification of required payrolls in the CRB. For one of the projects reviewed, we could not verify the payrolls for two subcontractors who were listed on the labor certification as having submitted payrolls. The CRB's normal control system is to monitor all subcontractors for which it has received subcontractor assignment notifications on each construction project. Since a written subcontractor assignment was on file with CRB for each of the two subcontractors, CRB personnel should have investigated the lack of payroll documents for the two subcontractors prior to completing the final labor certificate. The labor certificate indicated all required payrolls had been received.

In addition, we noted the following two issues indicating weaknesses exist in the control procedures designed to ensure compliance with Davis-Bacon Act provisions.

- ▶ While reviewing CRB payroll files for compliance with Davis-Bacon Act requirements, we reviewed the accuracy and completeness of the project labor certifications. For the 17 files reviewed, we found that three labor certifications were missing a total of seven subcontractors who worked on the projects. The subcontractors not included on the labor certifications cause us to question the accuracy of the labor certifications.
- ▶ CRB receives a copy of all subcontractor notification forms from the department's Construction Bureau approving the request to subcontract some of the project. When CRB has knowledge of a subcontractor working on a project, they expect to receive payrolls and to investigate if the payrolls have not been received. Since payrolls are received by CRB through the project engineers for all contractors and subcontractors, CRB may receive payrolls for subcontractors regardless of whether it has received the assignment notification form.

Questioned Costs: We question the allowability of \$24,739 for the payments made to these two subcontractors because no documentation of compliance with the Act exists.

Context: During fiscal years 2001-02 and 2002-03, the department spent approximately \$280 million and \$306 million of federal-aid highway funds, respectively.

Effect: At the time of the final labor certification, the department did not have adequate documentation of compliance with Davis-Bacon Act provisions or support that the Act was not applicable.

Cause: Department personnel did not have any explanation as to why the required certified payroll was not on file at CRB. Lack of communication between CRB and the department's Construction Bureau causes the CRB's control of monitoring all contractors and subcontractors to potentially fail.

Recommendation: We recommend the department evaluate, revise, and monitor control procedures to ensure compliance with federal Davis-Bacon Act provisions.

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Section III - Federal Awards Findings and Questioned Costs

Finding 2-34: U.S. Environmental Protection Agency
CFDA #66.458 Capitalization Grants for State Revolving Funds
CFDA #66.468 Capitalization Grants for Drinking Water State Revolving Fund

Criteria: Federal regulations, 40 CFR 35.3165 requires the State Revolving Fund program receive an annual financial and compliance audit. This section also requires the audit report be completed within one year of the end of the appropriate accounting period.

Condition: Montana's Water Pollution Control and Drinking Water State Revolving Fund programs are administered jointly by the Montana Department of Environmental Quality and the Department of Natural Resources and Conservation (department). Historically, the department has requested a financial audit of these programs each year because annual audits are required by the federal Environmental Protection Agency. As of September 2002, the audit of the State Revolving Fund Programs for fiscal year 2001 had not been completed because final financial statements had not been provided by the department.

Questioned Costs: No questioned costs were identified.

Context: Legislative Audit Division has conducted audits of the programs for approximately 5 years. Based on our knowledge of the programs, the audits alternate between timely and non-timely.

Effect: The departments are not in compliance with federal audit requirements of the programs.

Cause: Department personnel indicated the audit was late due to staff turnover at the departments.

Recommendation: We recommend the department establish procedures to complete the State Revolving Fund financial statements to ensure the audit report can be completed within one year as required by federal regulations.

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Section III - Federal Award Findings and Questioned Costs

Finding 2-35: U.S. Department of Agriculture (USDA)
CFDA #10.664 Cooperative Forestry Assistance

Criteria: Federal regulations, 7 CFR 3016.20(b)(7), require the Department of Natural Resources and Conservation (DNRC) to establish procedures minimizing the time between the transfer of funds from the U.S. Treasury and disbursement by the DNRC.

Federal regulations, 7 CFR 3016.41(b)(3), require the DNRC to submit Financial Status Reports as prescribed by the USDA, but not more frequently than quarterly. In the grant agreement, the USDA specified the Financial Status Report be submitted quarterly for the federal fiscal year 2003 award and annually for awards made in prior federal fiscal years.

OMB Circular A-133, Subpart C, Section .300(b) requires the DNRC to maintain internal control over Federal programs that provides reasonable assurance the federal award is managed in compliance with laws, regulations, and the provisions of the contracts or grant agreements that could have a material effect on it.

Condition: In our review of cash draws for fiscal year 2001-02 and 2002-03, we noted the DNRC did not minimize the time elapsing between the transfer of funds from the U.S. Treasury and the related disbursements. We identified four instances where cash draws were drawn in advance of related disbursements by periods ranging from one and one-half to seven months.

Except for one financial status report, DNRC personnel were unable to provide documentation demonstrating they prepared and filed the Financial Status Reports applicable to the award during fiscal years 2001-02 and 2002-03.

We could not verify that internal control over compliance exists for cash management, reporting, eligibility and matching compliance requirements applicable to the Cooperative Forestry Assistance award during fiscal years 2001-02 and 2002-03. We did not identify instances of noncompliance with the eligibility and matching compliance requirements applicable to the award.

Questioned Costs: No questioned costs were identified.

Context: The DNRC expended \$2,419,203 and \$2,788,511 in fiscal years 2001-02 and 2002-03, respectively, under this federal award. Of the fourteen types of federal compliance requirements, nine are applicable to this award.

Effect: The DNRC is not in compliance with OMB Circular A-133, 7 CFR 3016.20(b)(7) and 7 CFR 3016.41(b)(3).

Cause: DNRC personnel indicated these errors occurred as a result of employee turnover and the complexity and size of the award increasing over time. We also observed that policies and procedures were not documented and management did not ensure its employees established internal control over compliance.

Recommendation: We recommend the department establish, document, and monitor internal control over compliance with the cash management, reporting, eligibility and matching compliance requirements for the Cooperative Forestry Assistance award.

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